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# NATIONAL INTELLIGENCE ESTIMATE

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# Prospects for Brazil

Submitted by the
DIRECTOR OF CENTRAL INTELLIGENCE
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# PROSPECTS FOR BRAZIL

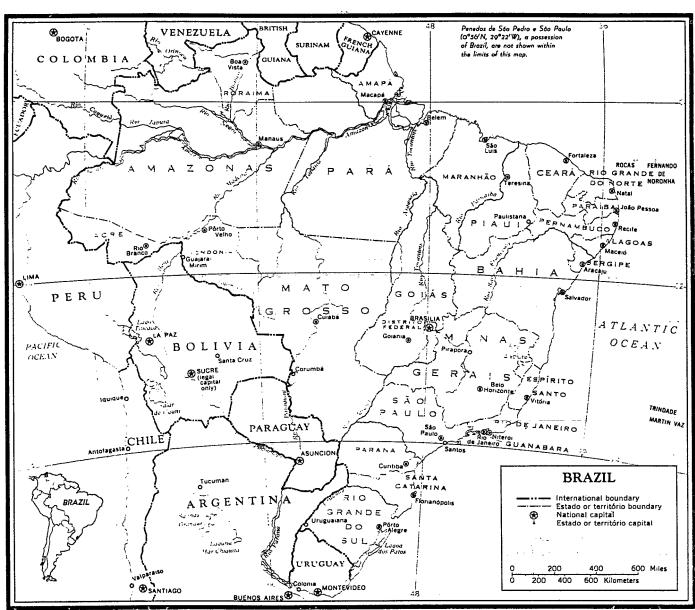
#### THE PROBLEM

To assess the character of the Castello Branco regime, and to estimate Brazil's political and economic prospects over the next year or two.

#### CONCLUSIONS

- A. The Castello Branco government has provided responsible and effective leadership, reversing the movement toward chaos of the Goulart period and making an impressive start toward reasonable solutions of Brazil's many problems. President Castello Branco commands, largely on his own terms, the strong support of the military establishment and the cooperation of Congress. This has enabled him both to preserve the qualified constitutional system imposed by the military after Goulart's removal and to press ahead with his program of major reforms. (Paras. 1-11)
- B. So serious and basic are the economic problems inherited by the Catello Branco government, however, that despite its determined efforts improvements can come only slowly. While attempting to bring Brazil's hyperinflation gradually under control, the administration is also trying to prepare the way for rapid economic growth and meaningful social reform. Its accomplishments so far have fallen short of its aims: it could not prevent a small decline in the economy in 1964, and its goals of relative price stability and vigorous economic expansion by 1966 are probably already beyond reach. Nevertheless, it has achieved much in correcting the worst imbalances and has set the stage for a significant reduction of inflation and a respectable rate of economic growth. (*Paras. 17-27*)
- C. Popular discontent is likely to increase over the next year, primarily because all elements of the population are feeling the pinch





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of the regime's austerity program. Because the regime's integrity and authority are widely respected, however, this discontent is not likely to precipitate a major challenge to political stability. Over the next year, leftist extremists will probably try to carry out sporadic sabotage and terrorism, but their capabilities are limited and Brazil's security forces will almost certainly be able to handle any threat they may pose. The so-called hardline groups in the military are likely to attempt to coerce the President occasionally, as in the past, but such pressures will almost certainly not threaten his overthrow or even force him to reverse his essentially moderate political policies. (Paras. 12-16, 28-34)

D. There is, of course, a potential conflict between the regime's determination to ensure the continuation of its program and its desire to hold presidential elections as scheduled in November 1966. To ensure continuation of its policies through an electoral victory, the regime will probably seek to form a combination of political machines at the state level that can "deliver" the vote. Castello Branco would be the strongest pro-regime candidate. Although he has so far flatly refused to run, there will be considerable pressure on him to change his mind. In any case, we consider it likely that the election will be held. (*Paras.* 36-39)



#### DISCUSSION

#### I. INTRODUCTION

- 1. By the time of the overthrow of the Goulart regime in April 1964, Brazil had been driven close to the edge of political and economic chaos. The constitutional system had been rendered a shambles by President Goulart's incompetence and irresponsibility, by the growing power of leftist subversives, and by corruption and factionalism nearly everywhere on the political scene. Economic development had all but ceased; the country was threatened with runaway inflation at home and collapse of its credit abroad; and political disarray had intensified a multitude of social tensions.
- 2. In these circumstances, the military leaders of the coup against Goulart defined their action as an authentic revolution and decided not to relinquish power to civilian politicians until the foundations for national recovery had been laid. But after some debate they concluded that a system of qualified constitutional rule would prove more suitable for this purpose than an outright military regime. They thereupon chose for the presidency General Humberto Castello Branco, their most highly regarded colleague, and decreed an "Institutional Act" to arm him with extraordinary powers vis-ā-vis the rest of the political system.¹ Congress preserved form, first by electing Castello Branco to serve out Goulart's unexpired term (to January 1966), and then by amending the constitution to extend this mandate until March 1967.

#### II. THE POLITICAL SITUATION

#### Character of the Regime

3. As the executor of the 1964 revolution, Castello Branco's regime is pledged to set Brazil back on a course of national development and to prevent a return to power of those politicians who had created a situation that the revolutionaries found intolerable.<sup>2</sup> Within this general mandate, the military establishment has granted Castello Branco a virtually free hand to forge an overall political strategy and to work out specific measures. On matters of broad national policy, the President has turned for counsel primarily to a group of senior military comrades

<sup>&</sup>lt;sup>2</sup> Many supporters of the revolution trace the responsibility for Brazil's problems back to the rule of Getulio Vargas (1930-1945, 1951-1954) and his political heirs, conspicuously including President Juscelino Kubitschek (1956-1960) as well as Goulart.



¹ The military's Supreme Revolutionary Command, which exercised the real power of government immediately following Goulart's removal, imposed the Institutional Act upon the 1946 constitution in the name of the revolution. The Act empowered the President for a period of 60 days to cancel the mandates of elected officials and deprive individuals of their political rights, and for a period of six months to remove members of the bureaucracy and the armed forces without regard to tenure. It also gave the President special powers through January 1966 to speed up and control the content of congressional legislation and constitutional amendments.



with whom he had discussed Brazil's problems over many years. On problems of economic strategy and policy implementation, he has sought principally the assistance of civilian technicians.

4. During its first year in office, the new regime has made an impressive start toward reasonable solutions of national problems. Castello Branco has concentrated his efforts on three priority goals: modernization of the political system, making maximum use of constitutional processes; maintenance of strong military support as the current bulwark of the revolution; prosecution of economic recovery and reform programs to forge a basis for broader popular support.

#### Constitutional Aims

5. As one means of bolstering constitutionalism, Castello Branco has emphasized the civilian aspects of his government. He has played down his military status, has appointed civilians to head all but one of his nonmilitary ministries, and has generally prevented flagrant interference by military officers in political affairs. He has pursued a moderate course with respect to the rest of the political system, using with restraint the special powers granted him by the Institutional Act. He has permitted Congress—following the purge of about 10 percent of its former membership on charges of corruption and subversion—to exercise considerable independence of action. The federal judiciary, at Castello Branco's personal insistence, was exempted from the purges and has slowly been resuming its traditional primacy over military courts. Seven of Brazil's 22 elected state governors have been removed from office since the revolution, but those who have survived and have shown a general willingness to cooperate with the regime have retained their usual prerogatives.

6. By deeds and words, Castello Branco has left no doubt that fully constitutional government must be limited by the overriding need to achieve the goals of the April revolution as embodied in the regime's program. On several occasions—such as his insistence last February that his personal candidate be elected President of the Chamber of Deputies—Castello Branco has not hesitated to intervene directly or to exploit his considerable influence. His military support and political skill have enabled him to avoid open confrontations between the requirements of the revolution and those of constitutionalism on most occasions. Even when there has been a showdown, he has achieved his immediate objective without violating constitutional form, because the political groups repre-

<sup>&#</sup>x27;General Golbery do Couto e Silva, one of Castello Branco's closest personal advisors, has emphasized that there must be progress in the regime's program in the economic, political, and social areas before there can be a further reduction of military influence. Golbery feels that military participants in past Brazilian crises got out too quickly without making necessary changes in the political and economic structure, and that, as a result, further military interventions were required. He declares that the Castello Branco regime intends to return Brazil to civilian normality—but only when the country's political and economic affairs have been put into reasonable order.



<sup>&</sup>lt;sup>a</sup> Although he chose to retire from active military service, he retains reserve status as a marshal.

sented in Congress understand that failure to support Castello Branco would risk the imposition of an outright military regime.

#### Military Support

- 7. In the Brazilian military establishment Castello Branco is widely respected for his integrity, courage, and intellect. Since taking office, he has frequently and effectively presented the case for his policies to various military audiences. He has also used promotions and transfers to move officers sympathetic to the regime's views into key posts and to remove potential oppositionists. In this the President has had the firm backing of General Arthur da Costa e Silva, the Minister of War, whose authority is respected throughout the armed forces. Castello Branco has thereby commanded strong military support for his policies largely on his own terms.
- 8. Pro-Goulart officers were for the most part forced into retirement under the Institutional Act and have presented no challenge to Castello Branco. Various participants in the revolution, on the other hand, have raised strenuous objections to the regime's moderate policy toward the old political order. Certain of these so-called hardline groups pose no appreciable threat; they exist primarily to promote the political ambitions of congenital plotters, such as Admiral (retired) Sylvio Heck and General Olympio Mourao Filho. Potentially more troublesome to Castello Branco are certain loosely-knit groupings of younger hardline officers (captains through colonels). These officers appear to be motivated primarily by revolutionary zeal rather than by political or personal ambition. They have not directly challenged Castello Branco's leadership, but have sought to force the regime's hand on certain policy issues.
- 9. To date Castello Branco has done well in containing these pressures, limiting the political influence of hardliners for the most part to local security matters. On occasion, however, they have been able to win over to their point of view the bulk of the military establishment. Many influential officers, including Costa e Silva, although loyal supporters of the President, are very sensitive to the possible subversion of the revolution by oldline political forces. At times, these officers have joined the hardliners in declaring an issue a crucial challenge to the revolution. In some but not all of these cases, Castello Branco has given in, at some cost to his prestige among civilian political forces. His primary concern has been to avoid any major split in the military establishment and the loss of its strong support for his overall policies. Such considerations were probably paramount in his decisions to purge ex-President Kubitschek under the Institutional Act and, after his purge power had expired, to oust Governor Mauro Borges of Goias from office by means of the constitutional, but infrequently-used, device of federal intervention.

#### Political Problems

10. The relations of the Castello Branco administration with Congress so far have produced benefits for both sides: the Executive has gained legal sanction for nearly all of its far-reaching program; Congress has gained stature as a

responsible, do-something body. During most of 1964, however, the administration enjoyed the formal political allegiance of only about one-third of the members of Congress. In practice, therefore, Castello Branco has had to cut across the entire political spectrum to seek majorities on an issue by issue basis. His success stems primarily from his prestige, the lobbying skills of his chief legislative advisors, and the prudent use of the very considerable powers of the executive.

11. In February 1965, Castello Branco formed a congressional bloc, now called the Parliamentary Renovation Bloc (BPR), to ensure more reliable political support in the Chamber of Deputies.<sup>5</sup> He apparently had become concerned that oldline political loyalties would revive as the impact of the revolution faded and interest in the 1966 presidential election intensified, endangering the passage of the remainder of the regime's legislative program and its ability to influence the outcome of the 1966 election. So far, 206 members of the Chamber of Deputies have joined the BPR—a slim majority, but sufficient to have secured control of nearly all key posts in that body.<sup>6</sup> The President apparently is using his prestige and patronage to attract other Deputies who have so far remained on the fence and to wean members of the Bloc away from their old party loyalties.

12. The BPR is a congressional bloc, not a national party organization. As state and national elections approach, the regime has an increasingly urgent need to develop some form of electoral organization capable of getting out the vote in support of favorably disposed candidates, all the more so in view of the present unpopularity of many of its measures.

13. In contrast to initial enthusiasm for the overthrow of Goulart, dissatisfaction now exists at all social levels. This results from the administration's unprecedented demands for economic austerity and discipline, and from its nevertheless slow progress toward the control of inflation and economic recovery. The privileged classes (upper and middle income groups) are disappointed in their expectation that the removal of Goulart would dispel their principal problems and frustrations. That they find themselves called upon to bear higher taxes, tighter credit controls, and closer regulation of business practices is a continuing source of disenchantment with Castello Branco. The poor, for their part, tend to feel that it is they who are called upon to bear the major burden of the administration's program and that relief for them is neglected by an

<sup>&</sup>lt;sup>5</sup> The formation of organized blocs of like-minded members from several political parties is a longstanding Brazilian parliamentary practice.

<sup>&</sup>lt;sup>o</sup> The National Democratic Union (UDN), formerly the leading anti-Goulart party and the mainstay of the regime's official support during 1964, has 93 members in the Chamber, 87 of whom joined the BPR. The Social Democratic Party (PSD), which had cooperated with Goulart and has maintained a position of "independent cooperation" with regard to the Castello Branco regime, has 119 members, 48 of whom have joined. Goulart's Brazilian Labor Party (PTB), which has taken a stance in opposition to the government but not to the revolution, has 113 members, 23 of whom have joined. Ten minor parties have 84 members, 48 of whom have joined. A BPR has not been formed in the Senate, where Castello Branco has had strong and consistent support.



unsympathetic government. For the most part, however, this general discontent has not developed beyond the grumbling stage and the regime retains considerable respect for its integrity of purpose.

14. The administration has recognized that the alienation of the public could upset its economic and political programs. Although Castello Branco at first appeared to scorn suggestions that he try to "sell" these programs to the public, of late he has been making an effort to explain them as necessary to correct past abuses and achieve future benefits. It is difficult, however, to sell austerity and discipline to the Brazilian people. The poor are unable to understand complex economic calculations; the rich are too cynical to comply. In a political showdown, the more progressive economic interests are likely to appreciate that the administration's programs are to their ultimate advantage, and that there is no satisfactory political alternative. However, strong and positive popular support for the regime is not likely to develop unless and until it achieves some evident and substantial progress toward economic recovery and social amelioration.

15. The government's relations have been particularly strained with organized labor, formerly one of Goulart's strongholds. Traditionally the trade union movement in Brazil has been controlled from the top through government subventions and patronage; under Goulart's rule, Communists and other far leftists gained a position of predominant influence in the labor union hierarchy. The new regime moved quickly to purge extremist labor leaders and to name federal interventors to take over control of some 400 unions. Its problem now is two-fold. There is a dearth of pro-government labor leaders sufficiently capable to control their unions without continued government intervention, and the rank-and-file tend to believe that the regime's policy of wage discipline is forcing them to bear a disproportionate share of the burden of economic recovery. Because the government fears an immediate return of strong extremist influence in the unions, it has been slow to withdraw its interventors and permit free union elections.

16. The government's relations are also strained with intellectuals generally and with students in particular. In the immediate aftermath of the revolution, many leftist extremists were purged from positions of influence in university faculties, student organizations, the press, and other communications media. Some left-leaning intellectuals innocent of subversive intentions were also harassed, but mostly by local and state authorities bent on personal retaliation. At present, the regime exercises no unusual restraints over the press or over the personal liberties of intellectuals. It refuses, however, to permit student organizations supported by government funds to participate in political activities. The students are free to form their own action groups, but even many moderates among them resent the fact that they can no longer enjoy their traditional subsidies on their own terms.



#### III. THE ECONOMIC SITUATION

#### Goulart's Legacy

17. President Goulart inherited pressing economic and social problems when he took office in 1961; through his demagogic policies and inept rule, he quickly made them worse. During 1963, his last full year in office, the price level rose by over 80 percent, payments on foreign debts were increasingly in danger of default, domestic and foreign investment declined, and economic growth all but ceased. Gross national product (GNP), which had risen at an average annual rate of six percent for over a decade, increased by less than two percent during 1963, thereby falling behind the three percent population growth rate. Thus, while Goulart's political agitation raised the expectations of the downtrodden majority of the population, his economic mismanagement depressed their living conditions still further. Finally, during the first quarter of 1964, the pace of economic deterioration quickened alarmingly. The price level shot up at an annual rate of 140 percent and various forces were set in motion that would probably have forced the rate higher as the year progressed.

### Castello Branco's Program

18. President Castello Branco placed his economic ministries in the hands of men noted for their technical competence, chief among them Planning Minister Roberto Campos, and charged them with devising a program to repair the wreckage left behind by Goulart. The program they developed represents a serious attempt to cope with Brazil's problems; the President has given it top priority and steadfast backing. Although it contains plans for recovery of rapid growth rates and for structural and social reform, its major emphasis is placed on the urgent task of bringing Brazil's hyperinflation under control. In recognition of the limitations imposed by political and social considerations, it provides for a gradual braking of inflation over a three year period. For 1964, its goal was to hold the rise in prices below 80 percent.

19. To this end the regime launched a concerted drive to slow down the three main engines of Brazilian inflation: budget deficits, bank credits, and wage increases. It was able to reduce the 1964 budget deficit below that of 1963 by 25 percent in real terms.<sup>8</sup> Tax revenues were boosted substantially, but budgetary expenditures remained at the 1963 level, largely because of the government's unwillingness, for socio-political reasons, to discharge large numbers of unneeded employees, or to raise substantially the unrealistically low rates charged by government-owned utilities. The government reduced the volume of bank credits to the private sector in real terms, thus forcing business

<sup>&</sup>lt;sup>7</sup> Data on price increases in this estimate are based on the cost of living index for Rio de Janeiro.

<sup>&</sup>lt;sup>6</sup> The regime's achievement may also be expressed in terms of the share of budgetary expenditures covered by revenues: 73 percent in 1964, compared with 65 percent in 1963, and only 53 percent during the first quarter of 1964.



firms to finance an increased share of their costs from their own resources. It forced the elimination of patently inflationary features from wage contracts in the private as well as the public sector, thereby causing a moderate decline in workers' average real wages. These achievements enabled the regime to hold the rise in prices for the year to 87 percent, only slightly above target. The average monthly rate of increase was reduced from over seven percent during the first quarter to less than five percent during the final three quarters.

20. Important steps were also taken to prepare for renewed economic development. An investment plan for 1965-1966 was adopted that is designed to bolster the flow of funds to such bottleneck sectors as transportation and electric power. The regime's reversal of Goulart's policy of deliberate harassment of foreign companies improved the climate for foreign investment, although the actual flow of new commitments continued sluggish throughout 1964. The establishment of more realistic foreign exchange rates will help to promote a positive foreign trade balance. A successful rescheduling of about \$450 million of the payments due to major foreign creditors temporarily relieves the danger of default or of crippling import restrictions, though the level of repayments due over the next few years will still constitute a formidable burden. Finally, successful negotiations with the US and with other foreign countries and international organizations assure a substantial boost in foreign economic assistance for 1965.

21. In the area of structural reform, legislation was passed paving the way for modernization of the banking and tax systems. Two major social reform measures were also enacted. A broadly supported housing program promises to make at least a start toward reducing Brazil's enormous urban housing shortage, and also to provide increased employment opportunities in urban areas. An agrarian reform program, passed over stiff conservative opposition, is directed toward increasing agricultural production as well as improving rural social conditions. It provides for variable tax rates to discourage the retention of underutilized large holdings, and for expropriation with compensation in bonds in the case of unused holdings. An agrarian reform agency, with an assured source of income, has been formed to administer the program of expropriation, resettlement, and colonization. Overall, this represents a carefully constructed first step in a complex long-term undertaking: an earnest of the regime's concern for the welfare of the depressed rural population.

22. The regime's economic efforts during 1964, impressive though they were, conveyed few direct benefits to the population at large. A combination of the negative trends already in train under Goulart, the deflationary character of many of the regime's measures, and a severe drought that depressed industrial as well as agricultural output led to a drop in GNP of 2 to 3 percent. Per capita personal consumption declined by more than 5 percent. The pinch on consumption was felt most acutely by low income groups and salaried employees. The entrepreneurial classes, especially inefficient or overextended business interests, were caught in a cost-price squeeze made worse by tightened bank credits.



#### IV. THE OUTLOOK

#### **Economic Prospects**

23. On balance, the economic outlook for Brazil over the next two years is relatively encouraging. The regime will probably pursue essentially the same responsible policies as in the past year, with at least modest progress to show for its efforts. Most factors point to a resumption of economic growth during 1965, in spite of continued industrial sluggishness in the first quarter. Favorable weather conditions already have assured a sizable increase in agricultural output, while the emergence of some positive effects from the regime's stabilization and development measures is likely to stimulate industrial output as the year progresses. Moreover, massive foreign economic assistance will prime the pump. Some \$450 million is due in loans and grants from the US Government alone. The International Monetary Fund has agreed upon a standby credit of \$125 million, and \$200 million or so is likely to be forthcoming from other governments, private banks, and foreign private investors.

24. The outlook for progress toward financial stability during 1965 is more uncertain. Several factors would indicate a substantial reduction in the rate of inflation. The regime's performance in the areas of budgetary and credit controls continues to be satisfactory. Also, the large food crops and ample supplies of imported foodstuffs are likely to reduce the upward pressures on food prices, a major component in the workers' cost of living. Nonetheless, developments during the first quarter were disquieting, with the price level rising by nearly 20 percent. In part this increase was due to recent price adjustments by the government which were necessary to reduce the budgetary deficit (e.g., increases in the rates charged by the railroads and other public utilities) and to large increases in house rents. But it was apparently primarily the result of the ingrained inflationary mentality of the population: businessmen continue automatically to raise prices to cover actual and anticipated increases in production costs; workers continue automatically to accept these increases and to demand wage hikes to cover them.

25. The regime has recently launched a major campaign to brake this momentum. It has set the standard for intensified wage stringency by raising the minimum wage (the effective wage for most unskilled workers) by only 57 percent, well below the 80 percent rise in the cost of living since the last adjustment. It now is demanding that producers and merchants hold the line on prices and is offering a variety of financial incentives for those who comply. So far the response of the business community has been unenthusiastic; even cooperative elements are somewhat cynical. We believe, therefore, that the regime's goal, to hold the increase in prices during 1965 to 25 percent, will not be achieved, and that the increase will probably be in the range of 50 to 60 percent. Even this will require a continued determined effort on the part of the regime and would constitute a noteworthy achievement.



26. We believe also that the regime's goals for 1966—a growth in GNP of seven percent, with a price increase of only 10 percent—are already beyond reach. The regime's ability to administer its many programs effectively and to control the myriad of inflationary pressures is in doubt. On the other hand, most of the factors underlying the promise of gradual improvement during 1965 will probably continue to operate during 1966. The regime probably will be able to achieve a respectable growth rate of about five percent and to hold the rise in prices to perhaps 20 to 30 percent.<sup>9</sup> These achievements would be notable by the standards of economic performance during 1963-1964 and would provide a reasonably sound foundation for further economic progress.

27. Whatever the extent of the regime's success in promoting economic growth and financial stability, the population will almost certainly continue to feel the pinch of austerity throughout 1965. There probably will be some improvement in living conditions during 1966 relative to 1964-1965, and the regime will obtain a certain positive response as it moves forward gradually with its social reform program over the next two years. The impact from housing and agrarian reform or new opportunities for employment will not be felt widely in this short time span, however, and appreciation of the difficult feats actually accomplished will probably be limited to a relatively small sector of the politically active population.

## The Course of Political Developments

28. Because only a small part of the population will benefit from the regime's economic efforts, we believe that popular discontent will continue to grow and will be expressed more openly over the next year or so. In particular, there probably will be an increase in strikes by labor groups smarting under the regime's policy of tightened wage restraints. There will probably also be a rise in protests by student and intellectual groups against the regime's political policies. We believe, however, that continued popular respect for the government's integrity and authority will keep these manifestations of discontent limited for the most part. Even if major disturbances do occur, the federal and state security forces will probably be able to control them.

29. Although leftist extremists will attempt to take advantage of popular disenchantment with the regime, their capabilities—shattered by the government crackdown that followed Goulart's removal—are likely to continue to be limited. The Brazilian Communist Party, still largely immersed in problems of reorganization, will probably concentrate on agitation and other "peaceful" activities. The only sizable extremist group with any stomach for violent action will probably be that of Leonel Brizola, now led by him from exile in Uruguay. Brizola will probably try to expand the present sporadic terrorist activities of his followers within Brazil into a major insurgency campaign, but will probably lack the resources to accomplish much, at least over the next two years. Brazilian

<sup>&</sup>lt;sup>o</sup> We are assuming continued US and other foreign assistance at about the 1965 level and at least normal agricultural weather.



security forces almost certainly will be able to handle effectively any attempt to step-up the level of insurrectionary activity.

30. The most vociferous civilian critic of the administration has been Carlos Lacerda, the fiery and erratic governor of Guanabara state (the city of Rio de Janeiro). Lacerda has made a career of bitter opposition to successive presidents from Vargas on. He was a daring opponent of Goulart and a leading civilian supporter of the 1964 revolution. At that time he enjoyed widespread sympathy and support among the military and probably expected the revolution to pave his way to the presidency. The UDN, the chief political party supporting Castello Branco, has technically nominated Lacerda as its presidential candidate. However, his political future has become increasingly problematical as he has chosen to deliver blistering attacks on the Castello Branco administration and its program. He probably calculates that the program will fail, and that there is political advantage to be gained by assuming the leadership of the dissatisfied elements—not only wage earners and peasants, but also landlords, entrepreneurs, and the hardline military.

31. The level of Lacerda's agitation has fluctuated as he has repeatedly tried and failed to win the military and the UDN away from support of Castello Branco. He apparently vacillates between two mutually exclusive courses of action: to seek once more the regime's support for his presidential candidacy; or to seek the leadership of all the dissatisfied elements. If Lacerda should definitely commit himself to the anti-regime forces, he would almost certainly forfeit the sympathy of the military and most of the UDN, and that would enable the regime to deal summarily with him, if need be.

32. Governors Adhemar de Barros of Sao Paulo and Jose Magalhaes Pinto of Minas Gerais—both staunch early supporters of the revolution, both presidential aspirants with little chance of winning Castello Branco's backing—are also likely to seek political support from among those discontented with the regime, but neither man is likely to attack the regime as boldly as Lacerda has. Castello Branco's political mobilization for the 1966 elections will probably force into more systematic and aggressive opposition the political elements which remain outside of his combination—e.g., elements of the PTB and PSD, and some minor parties. These elements, deprived of their principal leaders by purges under the Institutional Act, may seek alliance with one of the above governors, or even with Lacerda.

33. In sum, most of the political problems the regime will have to contend with during the next year or so will be somewhat more difficult versions of problems it has so far handled effectively. There will probably be new occasions requiring the exertion of strong, direct pressure on politicians or political groups in or out of Congress; a few more plotters may appear among the military. We believe, however, that Castello Branco will continue to provide effective leadership and will not essentially change either the basic character or the priority goals of his regime. The strong support he will continue to command from the military establishment together with his strengthened posi-





tion in Congress will probably enable him to resolve within constitutional norms whatever political crises arise. Hardliners are likely to attempt to coerce the President on occasion, as in the past, but, while occasionally bowing to their pressures, he probably will be able to keep their influence on national policy slight.

34. We do not exclude the possibility that an authoritarian military government might come to power in the next year or two, but we think it unlikely. A major blow to the prestige of the Castello Branco regime—that is, the manifest failure of its economic program; its inability to control some upsurge of popular, political, or insurrectionary opposition; or its failure to provide a reasonable solution to the problem of presidential succession—could touch off a movement to unseat Castello Branco or to force him to reverse his moderate policies. If such a major challenge were to develop, it would be less likely to come from the "political generals" of Castello Branco's own generation than from the zealous younger officers who by their action would be repudiating the "inadequate leadership" of their senior commanders.

35. In foreign relations, the Castello Branco regime will almost certainly continue to pursue strongly pro-Western policies. In particular, it will seek to keep intact Brazil's traditional close ties with the US, previously disrupted by Goulart's excessive nationalism and quasi-neutralist position.

#### The Question of Elections

36. Castello Branco faces a difficult question in determining how to ensure that the program of the revolution will survive the presidential elections scheduled for November 1966. We believe that he and his close advisors desire that these elections be held. They probably are aware that preservation of the present extemporized political arrangement will prove more difficult and more embarrassing as time passes. Yet they are doubtless equally aware that if elections were held and failed to return a candidate acceptable to the revolutionary forces of 1964, strong—probably irresistible—pressures would arise for military intervention, and that this would represent a major setback for constitutional development.

37. The regime already is occupied with devising a political strategy for the election, designed both to assure the continuity of revolutionary policies and to open the way for a more normal constitutional system. We believe that the regime will concentrate on developing a political combination that can "deliver" the vote. Since Brazilian political parties are essentially federations of strong state machines, it is likely to approach the issue on a state by state basis: in some cases it will probably decide to enhance the power of an established pro-regime party; in others it will probably attempt to weld various pro-regime factions into multiparty blocs. This would be an arduous and complicated process. Nonetheless, the regime starts off with considerable potential influence in state politics through various BPR congressmen and several strong and friendly governors. Castello Branco will almost certainly use his control over

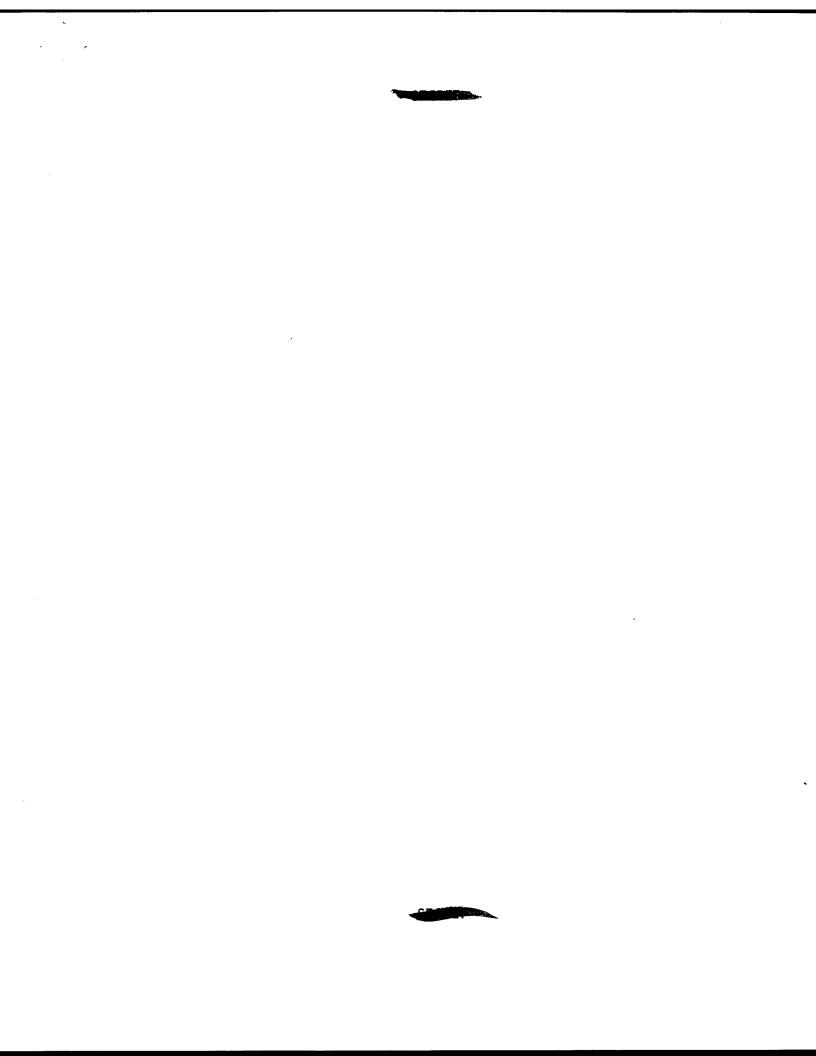


federal appropriations and patronage to strengthen the regime's chosen political vehicle in each state, and will probably also use his control of Congress to enact changes in party statutes and election procedures that would enhance the regime's electoral strength.<sup>10</sup>

38. The regime has decided to hold direct gubernatorial elections in October 1965 in 11 states, including the key states of Guanabara and Minas Gerais. It believes that it will be able to return friendly governors in nearly all contests, strengthening its political position in some of the states in the process. Some hardline military elements, who opposed the recent Sao Paulo municipal election on the grounds that a candidate unacceptable to the revolution might win, will probably raise similar objections to the holding of both the gubernatorial and the presidential elections. But we believe that the momentum toward elections will overcome this opposition, and that the presidential elections will be held on schedule.

39. The chief element of uncertainty about the 1966 election is whether Castello Branco will consent to run for re-election. There is a strong consensus among military and civilian supporters of the regime that he would be by far the most effective candidate for their purposes. He has flatly refused to consider running, but he is likely to be besieged on all sides over the next year with the plea that only he can assure a victory for the revolution and thus forestall pressures to cancel the election. This argument might persuade him to run. Such a decision would remove all doubt about the holding of the election. If, on the other hand, Castello Branco should persist in refusing to run, the race for the regime's nomination would probably be thrown open, considerable bickering among the regime's supporters would ensue, and appreciable doubts about the holding of the election would probably persist well into 1966.

 $<sup>^{10}</sup>$  For example, if he desires it, a constitutional amendment making him eligible for reclection.





SECRET CONTROLLES DISSEM